

Message Text

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ACTION EA-09

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P R 151004Z APR 77
FM AMEMBASSY SINGAPORE
TO SECSTATE WASHDC PRIORITY 7561
INFO AMEMBASSY BANGKOK
AMEMBASSY JAKARTA
AMEMBASSY KUALA LUMPUR
AMEMBASSY MANILA
AMEMBASSY TOKYO

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E.O. 11652: N/A
TAGS: PFOR, AMGT
SUBJ: EAST ASIA ECONOMIC POLICY REVIEW

REF: A. STATE 073295 B. SINGAPORE 1347 C. SINGAPORE 0610

BEGIN SUMMARY. AS REQUESTED REF A, THIS MESSAGE ELABORATES
ON ECONOMIC POLICY ASPECTS OF POST'S RECENT PARM SUBMISSION
(REF B), AS WELL AS ON AMBASSADOR'S VIEWS (REF C), AND COMMENTS
GENERALLY ON U.S. ECONOMIC GOALS IN THE REGION. END SUMMARY.

1. BEGIN UNDERSCORE. TRADE PROMOTION. END UNDERSCORE. IN
ANY REVIEW OF U.S.-SINGAPORE TRADE RELATIONS, IT IS USEFUL
TO BEAR IN MIND THAT MUCH OF SINGAPORE'S ATTRACTIVENESS AS
A MARKET COMES FROM ITS UNIQUE POSITION AS THE ENTREPOT
GATEWAY TO OTHER MARKETS IN THE REGION. OVERALL VOLUME OF
TRADE WITH SINGAPORE (\$2.2 BILLION IN 1976) AND HEALTHY U.S.
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TRADE SURPLUS (\$230 MILLION) WOULD BOTH SHRINK AS RESULT
OF ANY DIMINUTION OF SINGAPORE'S POSITION AS A DISTRIBUTION
CENTER FOR GOODS IN SOUTHEAST ASIA. ALTHOUGH THERE AS YET
HAVE BEEN FEW SIGNIFICANT CONSTRAINTS IMPOSED BY SINGAPORE'S
NEIGHBORS TO ITS REGIONAL TRADE, THE LONG TERM TREND APPEARS
TO BE IN THE DIRECTION OF DIMINUTION OF SINGAPORE'S REGIONAL
MIDDLEMAN ROLE.

2. ONE IMPLICATION OF THIS FOR U.S. IS THAT WE MAY WISH TO EXAMINE MORE CLOSELY THE CONCEPT OF A "REGIONAL" TRADE CENTER IN SINGAPORE. ANY DECREASE IN SINGAPORE'S IMPORTANCE AS A TRADING CENTER WOULD ALSO, NATURALLY, REDUCE THE TRADE CENTER'S REGIONAL EFFECTIVENESS. OUR LONG-TERM PLANNING SHOULD CONSIDER THIS POSSIBILITY.

3. SINCE SINGAPORE LIVES BY TRADING, IT IS PARTICULARLY SENSITIVE TO SIGNS OF GROWING PROTECTIONISM. ON THEORY THAT THE BEST DEFENSE IS A GOOD OFFENSE, SINGAPORE HAS PERSISTENTLY TRIED TO MOVE ASEAN IN DIRECTION OF A FREE TRADE AREA. AS FOR TRADE RELATIONS WITH THE U.S., WE SHOULD NOT BE SURPRISED TO SEE SINGAPORE ASSUME LEAD IN PRESSING FOR TRADE CONCESSIONS AT THE UPCOMING U.S./ASEAN DIALOGUE (AS, INDEED, IT DID IN JAKARTA RECENTLY IN THE ASEAN/JAPAN TALKS). WE CAN ALSO EXPECT SINGAPORE TO CLOSELY WATCH U.S. ADMINISTRATION HANDLING OF FOOTWEAR, TELEVISION, TEXTILES AND OTHER PENDING CASES INVOLVING POTENTIAL IMPORT RESTRICTIONS.

4. REGIONALLY, OUR IMPRESSION IS THAT THE U.S. IS NOT NEARLY AS COMPETITIVE AS IT COULD BE. NOR ARE WE SANGUINE ABOUT KEEPING OUR PRESENT MARKET SHARE. REASONS FOR OUR PESSIMISM INCLUDE RECENT CHANGES IN U.S. TAX POLICY (SECTION 911, AND SEVERAL RULINGS IN THE PETROLEUM SECTOR), ANTI-BRIBERY LEGISLATION, AND WHAT WE PERCEIVE AS AN ESSENTIALLY PASSIVE, UNCOMPETITIVE, AND DISINTERESTED POSTURE ON EXPORT PROMOTION BY EXIM.

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TM IRRESPECTIVE OF OUR COMPETITIVE EXPORT POSTURE, THE U.S. CAN PLAY A POSITIVE AND CONSTRUCTIVE ROLE IN SOUTHEAST ASIA BY CONTINUING TO INSURE THE RELATIVE SECURITY OF THE GSP LIST, AND BY NEGOTIATING MEANINGFUL COMMODITY ARRANGEMENTS. A MAJOR POLICY GOAL SHOULD BE TO ASSURE CONTINUED ACCESS TO THE REGION'S, PARTICULARLY SOUTHEAST ASIA'S, WEALTH OF RAW MATERIALS. TO DO SO, WE WILL NEED TO COOPERATE AS A CONSUMER IN APPROPRIATE BUFFER STOCK AGREEMENTS (E.G., TIN, RUBBER), AND TO BE GENEROUS IN ALLOWING U.S. MARKET ACCESS TO ASIAN COMMODITIES IN PERIODIC OVERSUPPLY (SUGAR, PALM OIL).

6. BEGIN UNDERSCORE. INVESTMENT. END UNDERSCORE. ALTHOUGH THE INVESTMENT CLIMATES IN MOST SEA COUNTRIES APPEAR TO HAVE IMPROVED IN THE LAST 12 TO 18 MONTHS, LITTLE NEW INVESTMENT HAS BEEN FORTHCOMING. THIS IS WORRISOME TO SINGAPORE AND THE SEA NATIONS, BUT THERE IS PROBABLY NOT MUCH WE CAN DO ABOUT IT. WE CAN, HOWEVER, GIVE A HEARING TO ASEAN CALL FOR RETENTION OF EXISTING FOREIGN INVESTMENT TAX INCENTIVES. RECENT OPIC INTEREST IN INSURING PETROLEUM DEVELOPMENT PROJECTS

IS OF CONSIDERABLE INTEREST TO U.S. FIRMS IN THE REGION AND
WE HOPE IT WILL PROVE TO BE A CONSTRUCTIVE DEVELOPMENT.

7. BEGIN UNDERSCORE. DEVELOPMENT. END UNDERSCORE. A HIGH
SINGAPORE OFFICIAL RECENTLY DESCRIBED THE COUNTRY AS A "WELL-
OFF DEVELOPING COUNTRY". SINGAPORE'S STATUS IS INDEED SOMEWHAT
ANOMALOUS: DESPITE HIGH PER CAPITA INCOME, INCOME DISTRIBUTION
IS UNEVEN. SINGAPORE'S LONG-TERM ECONOMIC GROWTH IS ALSO
CONSTRAINED BY LACK OF NATURAL RESOURCES AND SMALL SIZE OF
INTERNAL MARKET. CONCESSIONAL AID SEEMS UNCALLED FOR, BUT
SINGAPORE HAS IN PAST MADE EFFICIENT USE OF UNDP, COLOMBO
PLAN, AND OTHER AID FUNDS. SINGAPORE ACHIEVEMENTS IN FIELDS
OF POPULATION CONTROL, HOUSING, TRANSPORTATION, AND ECONOMIC
MANAGEMENT GENERALLY COULD WELL SERVE AS MODELS FOR OTHER
DEVELOPING COUNTRIES OF ASIA. U.S. AID POLICY COULD PERHAPS
ENCOURAGE AND FACILITATE SINGAPORE PLAYING A LARGER ROLE IN
REGIONAL DEVELOPMENT. WE COULD, FOR EXAMPLE, PUT UP PART OF
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THE "SEED MONEY" FOR ASEAN TRAINING PROGRAMS TO BE HELD IN
SINGAPORE. U.S. COULD ALSO SUPPORT IFIS LENDING TO SINGAPORE
FOR SELECTED "DEMONSTRATION" PROJECTS (E.G. MASS TRANSIT).

8. REGIONALLY, DESPITE IMPRESSIVE PROGRESS, THE FUTURE OF MANY
SOUTHEAST ASIAN DEVELOPING COUNTRIES IS BLEAK. POPULATION
GROWTH IS THE CRUELEST OF ADVERSARIES. ASEAN, FOR EXAMPLE,
PROJECTS ITS POPULATION (PRESENTLY 230 MILLION) DOUBLING BY
THE END OF THE CENTURY. THIS RAPID POPULATION GROWTH THREATENS
TO DESTABILIZE THE REGION FOR DECADES TO COME. FOR THIS REASON,
AND ALSO ON HUMANITARIAN GROUNDS, THE U.S. SHOULD STRIVE TO
GIVE EVEN HIGHER PRIORITY TO TECHNICAL ASSISTANCE IN THE AREA
OF POPULATION CONTROL.

9. ANOTHER PROBLEM AREA IS THE LIKELY DRYING UP OF SCARCE
DEVELOPMENT CAPITAL AND THE DANGER OF DEFAULT ON PRIVATE
SECTOR BANK LOANS. WHILE THIS DANGER IS NOT AS ACUTE IN THIS
REGION AS ELSEWHERE, U.S. BANKS ARE BEGINNING TO PULL IN THEIR
HORNS. A MECHANISM FOR RECYCLING OF PETRODOLLARS TO LDCS
DIRECTLY THROUGH THE IFIS IS BADLY NEEDED.

10. BEGIN UNDERSCORE. ASEAN. END UNDERSCORE. SOME SCEPTICISM
ABOUT THE ECONOMIC RATIONALE OF ASEAN IS PERHAPS WARRANTED,
GIVEN THE ABSENCE OF COMPLEMENTARITY AND THE EXPERIENCE OF
REGIONAL GROUPINGS ELSEWHERE. WHILE WE SHOULD ENCOURAGE
THE ORGANIZATION'S FURTHER DEVELOPMENT AND CLOSER U.S./ASEAN
TIES, WE SHOULD DO SO WITHOUT RETAINING OR ADOPTING TAX OR

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ACTION EA-09

INFO OCT-01 ISO-00 ONY-00 /010 W

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P R 151004Z APR 77

FM AMEMBASSY SINGAPORE

TO SECSTATE WASHDC PRIORITY 7562

INFO AMEMBASSY BANGKOK

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TRADE POLICIES WHICH COULD LEAD TO INEFFICIENT ALLOCATION OF U.S. OR ASEAN RESOURCES. IN CONSIDERING WAYS IN WHICH WE CAN BE OF HELP, WE SHOULD CAREFULLY WEIGH REAL ECONOMIC COSTS AGAINST PERCEIVED POLITICAL BENEFITS.

11. THIS HAVING BEEN SAID, WE BELIEVE THAT RENEWED EFFORT SHOULD BE MADE TO EXTEND U.S. GSP TO INDONESIA. THE ASEAN DEMARCHE ON U.S. TAX DEFERRAL POLICY ALSO DESERVES SYMPATHETIC CONSIDERATION, BUT IN THE CONTEXT OF OUR OVERALL STRATEGY AND STANCE VIS-A-VIS DEVELOPING COUNTRIES.

12. TO EXTENT POSSIBLE, U.S. AND JAPAN WOULD BENEFIT FROM WORKING TOGETHER ON ASEAN MATTERS. GIVEN SOME ANTI-JAPANESE SENTIMENT IN SEVERAL ASEAN COUNTRIES, AND PERHAPS EXAGGERATED BELIEF IN JAPAN'S RESOURCE DEPENDENCY ON ASEAN, POSSIBILITY EXISTS FOR ASEAN TO OVERPLAY ITS HAND WITH JAPANESE. U.S. COULD PERHAPS MODERATE THIS IMPULSE. ON OTHER HAND, EQUAL
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POSSIBILITY EXISTS FOR JAPANESE, TO OUR POSSIBLE DETRIMENT, TO EXCLUSIVELY DOMINATE ASEAN INDUSTRIAL PROJECTS. SUCH AN EVENTUALITY, FROM A STRICTLY COMMERCIAL POINT OF VIEW, DOES

NOT SEEM DESIREABLE.

13. BEGIN UNDERSCORE. VIETNAM. END UNDERSCORE. PROGRESSIVE NORMALIZATION OF ECONOMIC RELATIONS WITH VIETNAM WOULD DIRECTLY, IF MODESTLY, BENEFIT U.S. FIRMS OPERATING IN ASIA, PARTICULARLY IN THE PETROLEUM SECTOR. IT WOULD ALSO BE OF BENEFIT TO THE ECONOMIES OF ASEAN. HOPEFULLY, AS VIETNAM'S COMMERCIAL, ECONOMIC, AND POLITICAL LINKAGES WITH THE NON-COMMUNIST WORLD GROW, THE RESULTING INTERDEPENDENCE WILL STYMIE ITS ADVENTURIST TENDENCIES.

14. BEGIN UNDERSCORE. JAPAN AND THE NEED FOR A REGIONAL ENERGY POLICY. END UNDERSCORE.

15. CLEARLY, JAPAN HOLDS THE PARAMOUNT POSITION IN THE REGION IN TERMS OF U.S. ASIAN INTERESTS AND POLICY. ANY DISCUSSION OF REGIONAL ECONOMIC POLICY GOALS AND INSTRUMENTS IN RECENT YEARS HAS BEGUN WITH THE ASSUMPTION THAT IT IS IN THE OVERALL INTEREST OF THE UNITED STATES TO PROMOTE JAPAN'S ECONOMIC GROWTH AND INTEGRATION INTO THE WESTERN ECONOMIC SYSTEM. THIS WE HAVE BEEN SUCCESSFUL IN DOING WITH ACCEPTABLE LEVEL OF CONFLICT WITH JAPAN OVER ECONOMIC ISSUES. THE CHALLENGE FOR FUTURE POLICY WILL BE TO CONTINUE THIS HAPPY RELATIONSHIP UNDER CHANGED CONDITIONS IN ASIA (COMMUNIST SUCCESSES IN INDOCHINA AND REDUCED U.S. MILITARY PRESENCE), IN THE UNITED STATES (HIGH EMPLOYMENT AND RISING PROTECTIONISM) AND IN JAPAN ITSELF (WEAKENING OF THE LDP).

16. WHILE POTENTIAL APPEARS TO EXIST FOR INCREASED U.S./JAPANESE POLICY CONFLICT IN SEVERAL AREAS (E.G. TRADE AND FISHERIES), THE ENERGY AREA APPEARS PARTICULARLY SENSITIVE. THIS IS THE CASE FIRST BECAUSE OF EVOLVING U.S. POLICY ON NUCLEAR ENERGY, AND SECONDLY BECAUSE U.S. ENERGY POLICY TOWARD JAPAN LIMITED OFFICIAL USE

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IMPACTS DIRECTLY ON SOVIET, CHINESE, AUSTRALIAN, AND INDONESIAN ECONOMIES.

17. CURRENT EAST ASIA ECONOMIC POLICY REVIEW SHOULD, THEREFORE, INCLUDE IN-DEPTH LOOK AT SHORT AND MEDIUM TERM U.S. ENERGY POLICY AS IT AFFECTS ALL OF EAST ASIA. OF PARTICULAR IMPORTANCE ARE POLICIES ON JOINT DEVELOPMENT WITH JAPANESE OF SIBERIAN ENERGY PROJECTS, ON POSSIBILITY OF SUPPLYING ALASKAN OIL TO JAPAN, AND EARLY FPC APPROVAL OF INDONESIAN LNG SALES. THE WAY WE MOVE ON THESE ENERGY POLICY QUESTIONS WILL DETERMINE WHETHER IN THE DECADES TO COME JAPAN AND THE SEA WILL BE MORE, OR LESS, DEPENDENT ON THE U.S., CHINA, SOVIET UNION, OR THE MIDDLE EAST FOR VITAL ENERGY SUPPLIES.

18. BEGIN UNDERSCORE. NORTH-SOUTH ISSUES. END UNDERSCORE.

FINALLY, THE U.S. SHOULD SEEK WAYS TO COLLABORATE MORE EFFECTIVELY WITH JAPAN AND THE INDIVIDUAL ASEAN NATIONS ON NORTH-SOUTH ISSUES, BOTH TO INSURE REGIONAL STABILITY, AND TO DRAW THE REGION'S DEVELOPING COUNTRIES MORE CLOSELY TO THE WESTERN ECONOMIC SYSTEM. BLOCH

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